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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/1/06  
 SPONSOR Rodella LAST UPDATED 3/10/06 HB 497/aHAFC  
 SHORT TITLE Fire Protection Fund Distributions SB \_\_\_\_\_  
 ANALYST Schardin

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
(\$28,600.0)			Non-Recurring	General Fund
	(\$9,600.0)	(12,900.0)	Recurring	General Fund
	\$5,100.0	\$5,800.0	Recurring	Local Govern- ments
	\$2,300.0	\$4,700.0	Recurring	Fire Protection Grant Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates SB458.  
 Relates to HB309.  
 Conflicts with HB310.

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Department of Finance and Administration (DFA)

### SUMMARY

#### Correction

House Bill 497 as passed by both houses contains drafting errors that could prevent the annual fire protection fund reversion to the general fund in FY06. Language stating that the reversion is to take place on or before June 30 of each fiscal year (page 8, line 9) is replaced (page 9, line 8) with language stating that the reversion will take place on July 1 of each year. This means that unless action is taken to ensure that the FY06 general fund reversion takes place before the effective date of this bill (May 17, 2006), FY06 general fund revenue will be reduced by \$28.6 million. This amount is higher than the general fund reversion forecast in the January 2006 consensus estimate, and is based on new analysis.

Further, by deleting the text on page 8 lines 4-7, the bill erases an earmark that currently distributes money from the fire protection fund to pay 75 percent, or about \$3.2 million, of the state fire marshal and state fire academy budgets. However, since this amount is specifically appropriated in the General Appropriation Act, DFA believes the state fire marshal will still receive this money for its FY07 operating budget.

The corrected revenue table also includes an increase in funding to local governments due to the increased distributions the state fire marshal will be allowed to certify.

Finally, an analytical error in the original FIR underestimated the fiscal impact the bill would create by increasing the minimum distribution amounts the state fire marshal may certify to each fire district. The fiscal impact of increasing these minimum levels will increase the recurring revenue loss of the bill to about \$9.6 million in FY07 and \$11.4 million in FY08.

Consultations between LFC, DFA, and PRC produced the following options that that should be considered before the governor takes action on HB497:

- By signing HB497 and taking no special action, the general fund will incur a \$28.6 million nonrecurring revenue loss in FY06. This option is reflected in the revenue table on page 1.
- By vetoing HB497 in its entirety, the governor can prevent a \$26.8 million nonrecurring revenue loss to the general fund. This option would have no revenue impact versus current law.
- By vetoing Section 5 of the bill in its entirety, the governor could allow the minimum distributions to fire districts to increase but prevent the complications found in this bill. However, this option would eliminate the gradual reduction of the general fund reversion.

Estimated Revenue with Veto of Section 5			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
(6,500.0)	\$(7,200.0)	(\$7,900.0)	Recurring	General Fund
	\$7,200.0	\$7,900.0	Recurring	Local Governments

It should be noted that the General Appropriation Act passed by both houses appropriates \$2 million from the fire protection fund to the PRC to improve equipment and training at the state’s lowest ranked fire departments.

Synopsis of HAFC Amendment

The House Appropriations and Finance Committee amendment to House Bill 497 amends the membership of the newly-created fire protection grant council so that it will consist of a representative from the New Mexico Municipal League, a representative of the New Mexico Association of Counties, two members appointed by the PRC, three members appointed by the governor who must represent three different congressional districts, one member appointed by the speaker of the house, one member appointed by the senate pro tempore, and the state fire marshal. The

amendment also ensures that council members appointed by the governor, house speaker or senate pro tempore may not be members of the PRC, Superintendent of Insurance, or an active member of a county or municipal fire district or department. Finally, the amendment states that the fire grant council will elect a chair from its members.

### Synopsis of Original Bill

House Bill 497 makes several changes to the way the fire protection fund is operated.

The bill phases out the reversion of the fire protection fund to the general fund over a period of ten years and increases the base funding amount for municipal and county fire stations by about 42 percent.

The bill also creates the fire protection grant council, which will grant funding to fire districts based on need from the newly-created fire protection grant fund. The council will consist of a representative from the New Mexico Municipal League, a representative of the New Mexico Association of Counties, two members appointed by the PRC, three members appointed by the governor, and the state fire marshal (see HAFC amendment synopsis).

The effective date of these provisions is May 17, 2006.

### **FISCAL IMPLICATIONS**

The fire protection fund receives insurance premium taxes paid to the state for property and vehicle insurance. Currently, the sum of 75 percent of the state fire marshal's operating budget, 75 percent of the fire academy's operating budget, the amount of volunteer firefighter's retirement, distributions to local fire districts in the previous fiscal year, and an additional \$100 thousand are subtracted from total fire protection fund revenue. Remaining revenue above this sum reverts to the general fund. In FY07, total fire protection fund requirements are expected to total \$28.7 million, and the general fund reversion is expected to be \$27.9 million.

House Bill 497 would gradually eliminate the annual reversion of fire protection fund revenue to the general fund between FY07 and FY16. DFA estimates the general fund reversion will fall by \$600 thousand in FY07, \$4.2 million in FY08, \$8.2 million in FY09, \$12.2 million in FY10, \$16.5 million in FY11, \$20.8 million in FY12, \$25.4 million in FY13, \$30.0 million in FY14, \$34.8 million in FY15, and \$39.7 million in FY16.

### **SIGNIFICANT ISSUES**

The 2003 Legislature appropriated \$250 thousand for the PRC to conduct a needs assessment. The study found that \$56 million was required to bring all fire districts currently rated 9 or 10 by the insurance service organization (ISO) up to a rating of 8. This bill addresses the recommendations of this study. However, DFA asserts that the slow phase-in of additional funding to local fire districts may mean that improvements will not be realized for several years.

According to the needs assessment study, PRC, the New Mexico Firefighter's Association, the New Mexico Municipal League, and the New Mexico Association of Counties have passed resolutions in support of this effort.

**PERFORMANCE IMPLICATIONS**

Increasing funding available for improvements to local fire districts will reduce the risk of fire and may decrease insurance premiums by decreasing the risk of fire.

**ADMINISTRATIVE IMPLICATIONS**

PRC’s needs assessment survey recommended three additional FTE to improve inspections and fiscal compliance.

**CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

House Bill 497 duplicates Senate Bill 458. It relates to House Bills 309, which appropriate general funds to the fire protection fund to improve fire districts with poor ISO ratings. It conflicts with House Bill 310.

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